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SUBJECT: PIEBALGS OPTIMISTIC FOLLOWING VISITS TO TURKEY AND
AZERBAIJAN

REF: ISTANBUL 553

Classified By: EEST Counselor Louis L. Bono, reasons 1.4 (b) and (d).

SUMMARY AND INTRODUCTION

11. (C) Ambassador Silverberg and Special Envoy Gray met with EU Energy Commissioner Andris Piebalgs on November 11 to discuss his November 5-7 visit to Ankara and Baku. Piebalgs expressed his gratitude for the efforts of the USG to open the Southern Corridor and added the Turks appreciated the October 30 visit by Acting Deputy Energy Secretary Kupfer. (Reftel) He is optimistic an agreement could be reached by January, and noted the Azeris "have gas for any EU country," possibly 12 or more bcm. He believes Turkey's President Gul and Economic Minister Simsek both understand the importance of opening the corridor, but Energy Minister Guler remains an obstacle. He said Turkmenistan is not poised to make any commitments at this point, but he expects they will be more receptive once the corridor is opened.

AZERIS FOCUSED ON EUROPE, NOT TURKEY

12. (C) Piebalgs first discussed his visit to Baku. The Azeris told him that they do not consider the Russian proposal seriously and they do not feel "safe" about sales to Iran. Thus, they see Europe, and to a lesser extent, Turkey as their only option; the Europeans will pay market price and set a reference price for Turkey. However, the Azeris "will not sell all their gas to the Turks." On Turkey, he said the Azeris complained about their experience with Turkey on sales from Shah Deniz I. The Azeris sought to raise the discounted price from \$120 per thousand cubic meters to \$144. The Azeris are "fed up with the Turks" and are trying to avoid arbitration over this issue. Nevertheless, he said that any prolonged dispute over Shah Deniz I would not impact an agreement on Shah Deniz II gas.

'NOTE TO SELF': DON'T RAISE N-K DURING GAS DISCUSSIONS

13. (C) During his meeting with Azeri Foreign Minister Mammadyarov, Piebalgs said he raised Georgia as an example of Russian malfeasance. According to Piebalgs, Mammadyarov decried the EU's employment of a double standard when it comes to Nagorno-Karabakh. Mammadyarov said the EU insists on the "territorial integrity of Georgia" but only talks of a peaceful solution to the Nagorno-Karabakh dispute. Piebalgs said the Azeris are not tying a solution to future sales, but said they Azeris will "expect some help."

TURKEY IS COMING AROUND

14. (C) "Turkey," he said "is more complicated." Whereas President Gul and Economic Minister Simsek understand the importance of opening the Southern Corridor, Energy Minister Guler remains obstinate. Piebalgs said Guler has attempted to gasify Turkey and invested large sums in infrastructure.

His plan is dependant upon cheap gas, and thus "he is trying to squeeze the Azeris." He noted that Prime Minister Erdogan told him that Turkey reached an agreement with Azerbaijan for 8 additional billion cubic meters (bcm) per annum. Azeri President Aliyev subsequently denied this, so Piebalgs believes "Guler is misleading Erdogan." He believes "Guler is desperate" and "Botas needs cash."

15. (SBU) Piebalgs strategy for moving forward is twofold. The first is to convince the Turks that the Southern Corridor is their best opportunity and stress the Azeris could sell the gas to Russia or Iran, or simply leave it in the ground. He noted that Turkey's energy security would suffer more than Europe's if the corridor was not opened: "they could get zero." The second objective is to increase pressure on Cyprus to open the energy chapter. Piebalgs said he is working with Enlargement Commissioner Ollie Rehn on this issue, but Cyprus continues to be "a nuisance." He does not expect this will occur during the French presidency, but they will continue during the Czech presidency. He said that Turkey is still concerned about enlargement, but the GoT would not condition a transit agreement on the opening of the energy chapter.

AN AGREEMENT BY JANUARY

16. (C) Piebalgs seems optimistic about the prospects of opening the Southern Corridor. He expects the inter-governmental agreement (IGA) to be reached by January, with the Turkish and Azeri heads of state being invited to the January 2009 Budapest Nabucco Summit to conclude it. Piebalgs confirmed reports that Shah Deniz could produce as

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much as 16 bcm per annum, and Aliyev indicated more is possible "if there's a corridor." Of the 16 bcm, Piebalgs said three would be dedicated to Georgia, one for Azerbaijan, and the remaining twelve available for the Southern Corridor.

(Note: An anonymous Azeri official told a reporter last week that Shah Deniz II could produce enough gas to supply both the Turkey-Greece-Italy (TGI) interconnector and phase I of Nabucco. End note.) He said Guler is trying to secure all 12 bcm but "this is wishful thinking; Guler needs 20 bcm to make his plan work." The Turks have proposed an 8-4 split, but 4 bcm will not be sufficient, noting a target of 7 bcm for Europe or perhaps a 6-6 split.

NABUCCO OVER TGI

17. (C) Just about all of the press reports on his trip focused on Nabucco. Politically speaking, Piebalgs said both Nabucco and TGI are equally important, but he added: "for me, Nabucco would have a greater impact -- I just cannot make this position publicly." He added that TGI is "not high on the Azeri agenda." On Nabucco, "it is tricky to sort out where the gas will end up." Austria's OMV and Germany's RWE have been very active lately, more so than their Bulgarian and Romanian partners.

TURKMEN WAITING FOR CORRIDOR TO OPEN

18. (C) With respect to Turkmenistan, Piebalgs said EU companies have proposed to purchase 10 bcm, and the Azeris are "working on infrastructure." However, he "would not rely on Turkmenistan at this point." He believes the process is moving too fast for President Berdimuhamedov, but once the corridor is open, he expects the Turkmen will increase engagement. He noted that Berdimuhamedov is visiting Austria and Germany later this month and has not expressed concern about pipeline security.

BACK TO BAKU

19. (SBU) Piebalgs was grateful for the continued efforts of the USG: "your hard work has borne fruit." However, he said we still need to convince Guler, and possibly Erdogan, that the Azeris seek Europe as their primary market. He will return to Baku for the November 13-14 energy summit. He will only be in Baku for less than 12 hours, "but I have no choice" -- we need "visibility" given the presence of the

Hungarian prime minister and other heads of state. From Baku, he flies to Brazil to discuss biofuels.

110. (U) This cable was cleared by Special Envoy Gray.

Silverberg

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